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MEMORANDUM

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FROM: Steven M. Olea  
Director  
Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: May 29, 2015

RE: STAFF REPORT FOR GREAT PRAIRIE OASIS, LLC DBA SUNLAND  
WATER COMPANY'S REQUEST FOR APPROVAL OF ADJUSTMENT TO  
EXISTING RATES (DOCKET NO. W-04015A-15-0083)

Attached is the Staff Report for Great Prairie Oasis, LLC dba Sunland Water Company's application for a rate increase. Staff recommends approval of its recommended rates and charges.

SMO:JLK:red\ML

Originator: Jorn Keller

ORIGINAL

Arizona Corporation Commission  
DOCKETED

MAY 29 2015

DOCKETED BY

Service List for: Great Prairie Oasis, LLC dba Sunland Water Company  
Docket No. W-04015A-15-0083

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**GREAT PAIRIE OASIS, LLC DBA SUNLAND WATER COMPANY**

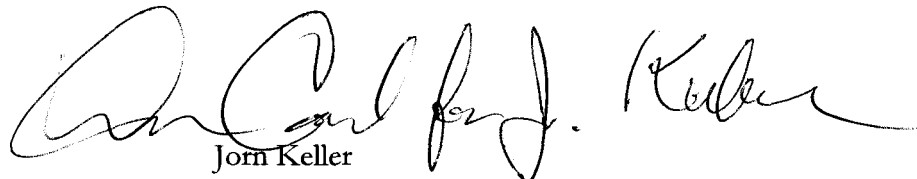
**DOCKET NO. W-04015A-15-0083**

**APPLICATION FOR A  
PERMANENT RATE CASE**


**MAY 29, 2015**

## STAFF ACKNOWLEDGMENT

The Staff Report for Great Prairie Oasis, LLC dba Sunland Water Company ("Company"), Docket No. W-04015A-15-0083 was the responsibility of the Staff members listed below. Jorn Keller was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Frank Smaila was responsible for the engineering and technical analysis. Trish Meeter was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Jorn Keller  
Public Utilities Analyst



Frank Smaila  
Utilities Engineer – Water/Wastewater



Trish Meeter  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY**  
**GREAT PAIRIE OASIS, LLC DBA SUNLAND WATER COMPANY**  
**DOCKET NO. W-04015A-15-0083**

Great Prairie Oasis, LLC dba Sunland Water Company ("Sunland" or "Company") filed an application for a rate increase before the Arizona Corporation Commission ("Commission") on March 6, 2015. On April 3, 2015, Staff issued a Letter of Sufficiency.

Sunland is a class E Arizona public service corporation, providing potable water service to approximately 77 metered customers. The Company is located in Pinal County, approximately 5 miles southeast of Casa Grande, Arizona. The current rates were authorized in Decision No. 73254, dated July 30, 2012.

The Company proposes total annual operating revenue of \$45,997, an increase of \$13,236 or 40.40 percent over the Company's test year annual revenue of \$32,761. The Company's proposed revenue would yield a 4.98 percent rate of return on the Company proposed original cost rate base ("OCRB") of \$198,675. The Company did not propose a fair value rate base that differs from its OCRB. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter residential bill, with a median usage of 3,626 gallons from \$27.87 to \$39.60, for an increase of \$11.73, or 42.1 percent.

Staff recommends total operating revenue of \$45,997, an increase of \$13,236 or 40.40 percent over the Company's test year revenue of \$32,761. Staff's recommended revenue would yield an 8.15 percent rate of return on Staff's recommended OCRB of \$196,966. Staff recommends an original cost rate base ("OCRB") of \$196,966. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,626 gallons from \$27.87 to \$36.25, for an increase of \$8.38, or 30.1 percent.

**STAFF RECOMMENDATIONS**

Staff recommends:

1. Approval of its recommended rates and charges as shown in Schedule JLK-4.
2. The Water Infrastructure Finance Authority of Arizona ("WIFA") Surcharge ordered by Decision No. 73827 be discontinued as of the effective date of the Decision in this Docket.
3. The Company be directed to log and document all Transportation Expense in the preparation of its next rate case.
4. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

5. The Company be ordered to use the depreciation rates presented in Table B of the attached Engineering Report.

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**EXHIBIT**

Engineering Report..... Exhibit A



**FACT SHEET****Company:**

*Type of Ownership:* Limited Liability Company.

Great Prairie Oasis, LLC dba Sunland Water Company is a class E Arizona public service corporation that provides potable water service to approximately 77 metered customers.

**Rates:**

Permanent rate increase application filed: March 6, 2015.

Current test year ended: December 31, 2014.

Prior test year ended: December 31, 2011.

Current rates effective: August 1, 2012.

The application became sufficient on April 3, 2015.

	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
<b>Monthly Minimum Rates</b>			
Residential Monthly Minimum Charge:			
5/8 x 3/4-inch meter	\$ 14.00	\$ 18.00	\$ 20.18
(Gallons included in the minimum)	0	0	0
<b>Commodity Rates (Per 1,000 gallons)</b>			
<u>5/8 x 3/4 &amp; 3/4-inch meters:</u>			
1 to 3,000 gallons	\$ 2.00	\$ 3.50	\$ 4.08
3,001 to 9,000 gallons	\$ 4.25	\$ 5.75	\$ 6.12
Over 9,000 gallons	\$ 5.75	\$ 8.50	\$ 11.36
<b>Typical 5/8 x 3/4 or 3/4-inch residential bill</b>			
Average use (4,750 gallons)	\$ 32.65	\$ 46.06	\$ 43.13
Median use (3,626 gallons)	\$ 27.87	\$ 39.60	\$ 36.25

**Customers**

Average Number of customers in the current test year (12/31/14): 77

There are no other meter sizes in use.

**Notifications**

Affidavit of mailing for the Customer Notification was filed on March 6, 2015.

**Complaints**

Number of comments filed against the rate increase application: 6.

Percentage of comments to customer base: 7.79 percent (6/77).

Two customer complaints were filed against the Company from January 1, 2012 through May 20, 2015.

## SUMMARY OF FILING

The test year results as adjusted by Utilities Division Staff ("Staff") for Great Prairie Oasis, LLC dba Sunland Water Company's ("Sunland" or "Company") rate application show total operating revenue of \$32,761 and operating income of \$4,735, as shown on Schedule JLK-1. The Original Cost Rate Base ("OCRB") as adjusted by Staff is \$196,966.

The Company proposes total operating revenue of \$45,997, an increase of \$13,236 or 40.40 percent over the Company's test year revenue of \$32,761. The Company's proposed revenue would yield a 4.98 percent rate of return on the Company proposed Original Cost Rate Base ("OCRB") of \$198,675. The Company did not propose a fair value rate base that differs from its OCRB. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter residential bill, with a median usage of 3,626 gallons from \$27.87 to \$39.60, for an increase of \$11.73, or 42.1 percent.

Staff recommends total operating revenue of \$45,997, an increase of \$13,236 or 40.40 percent over the Company's test year revenue of \$32,761. Staff's recommended revenue would yield an 8.15 percent rate of return on Staff's recommended OCRB of \$196,966 and provide revenue sufficient to pay operating expenses and contingencies. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,626 gallons from \$27.87 to \$36.25, for an increase of \$8.38, or 30.1 percent.

The Company requests a rate increase in order to meet expenses and to comply with the covenants of the Company's Water Infrastructure Finance Authority of Arizona ("WIFA") loan. Sunland did not meet the revenue requirement ordered in the last rate case. Consequently, advances totaling \$24,250 were made in the test year by the Company's managing member, the George J. Wischer Trust. The advances were treated as paid in capital. On November 24, 2014, WIFA informed Sunland that they were no longer in compliance with the Debt Service Coverage Ratio ("DSCR") requirements of the loan.

## COMPANY BACKGROUND

Sunland is a class E Arizona public service corporation, providing potable water service to 77 metered customers near Casa Grande, a community in Pinal, County.

The Company's customers are 77 residential users with 5/8 x 3/4-inch meters in a single subdivision, Brookside Farms. The current rates were authorized in Decision No. 73254, dated July 30, 2012. Decision No. 73254 also authorized a WIFA loan in the amount of \$122,050 to construct arsenic remediation blending plant in order to comply with Arizona Department of Environmental Quality ("ADEQ") standards. On April 10, 2013, Decision No. 73827, ordered the implementation of a WIFA surcharge in the amount of \$5.21 per connection per month.

Sunland filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission") on March 6, 2015. An Affidavit of Customer Notice was filed March 6, 2015. The application was deemed sufficient on April 3, 2015.

## CONSUMER SERVICES

A review of the Commission's records for the period beginning January 1, 2012 through May 19, 2015 found two complaints filed for the Company. Both complaints have been closed. Six comments in opposition of the rate increase request have been filed through May 20, 2015.

The Company's affidavit of mailing "Customer Notification" was filed on March 6, 2015.

## COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

Sunland is current on its property and Transaction Privilege Tax obligations. The Company is in good standing with the Corporations Division of the Commission.

## ENGINEERING ANALYSIS

Staff inspected Sunland's plant facilities on March 19, 2015. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

## RATE BASE

Staff's adjustments decreased the Company's calculated rate base by \$1,715, from \$198,675 to \$196,966, as shown on Schedule JLK-2, page 1. Details of Staff's adjustments are discussed below.

### *Utility Plant in Service*

Staff adjustments increase plant in service by \$6,327, from \$244,136 to \$250,463, as shown on Schedule JLK-2, pages 1 and 2. These adjustments properly reflect the plant in service account balances per Decision No. 73254 as well as plant additions, retirements and reassignments.

Wells and Springs – Adjustment "a" increases this account by \$1,300 from \$73,313 to \$74,613 to reassign a well meter from the Service Meters account to the Wells and Springs plant account.

Transmission and Distribution Mains – Adjustment "b" capitalizes \$6,503 in repairs to distribution mains and increases the Distribution Mains plant account from \$113,263 to \$119,766.

Meters and Meter Installations – Adjustment "c" decreases this account by \$1,476 from \$6,280 to \$4,804 to reassign a well meter from the Service Meters account to the Wells and Springs plant account and to remove \$176 in repairs.

### *Accumulated Depreciation*

Accumulated Depreciation, Adjustment A, increases accumulated depreciation by \$7,010 from \$47,368 to \$54,378, as shown on Schedule JLK-2, page 3. The adjustment was necessary because the Company failed to carry forward accumulated depreciation from prior years, to address over-depreciated plant, to capitalize repairs that Staff reassigned to plant and other unaccounted for variances.

### *Working Capital*

Staff's adjustments C to Working Capital reflects Staff's adjusted operation and maintenance costs, resulting in a net decrease to working capital of (\$1,026), from \$3,402 to \$2,376, as shown on Schedule JLK-2, page 1. Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

## **OPERATING INCOME STATEMENT**

### *Operating Revenue*

Staff's has no adjustments to operating revenue, as shown on Schedule JLK-3, page 1.

### *Operating Expenses*

Staff's adjustments to operating expenses resulted in a net decrease of \$7,199 from \$35,225 to \$28,026, as shown on Schedule JLK-3, pages 1, 2 and 3. Details of Staff's adjustments are presented below.

Purchased Power – Adjustment A decreases Purchased Power by (\$403), from \$3,258 to \$2,855, as shown on Schedule JLK-3, page 1 and 2. Staff removed the December 13, 2013 purchased power costs as they are outside of the test year.

Repairs and Maintenance – Adjustment B decreases Repairs and Maintenance by (\$6,648), from \$6,873 to \$225, as shown on Schedule JLK-3, page 1 and 2. During the test year, extensive repairs were made to transmission mains. Per the conventions of the National Association of Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA"), these costs are capitalized and added to the transmission and mains plant account.

Outside Services – Adjustment C increases Outside Services expense by \$1,540, from \$2,465 to \$4,005, as shown on Schedule JLK-3, pages 1 and 2. Water testing sampling labor of \$955 is moved from the Water Testing expense account to Outside Services. In addition, water testing sampling labor is increased by \$345 as recommended by Staff's Engineering Report. Finally, the Company's operator fee is increased by \$240 as recommended by the Engineering Report.

Water Testing Expense – Adjustment D decreases water testing expense by \$1,461, from \$3,241 to \$1,780, as shown on Schedule JLK-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined in Staff's Engineering Report.

Rents – Adjustment E decreases rent expense by (\$2,084), from \$7,200 to \$5,116, as shown on Schedule JLK-3, pages 1 and 2. This adjustment reflects a more appropriate rent amount, considering the operations of Sunland. The Company has no employees, and the office functions of bookkeeping, billing and compliance are performed by owners, Judy Wischer and Elizabeth Wand, both on a part-time basis. The General Services Administration estimates that 300 square feet of office space is needed for one executive.<sup>1</sup> Staff's informal survey of the central Scottsdale office rental market indicates that office space could be acquired for \$17 per square foot per year or a total cost of \$5,116.

Transportation Expense – No adjustment is being made by Staff to Transportation Expense, which the Company has charged in the amount of \$1,640. This expense represents mileage reimbursement for Company manager, Beth Wand. No mileage logs are kept by the Company. At the 2014 Internal Revenue Service reimbursement rate of \$.56 per mile,<sup>2</sup> the test year expense represents 1.9 trips per month from the Company's headquarters in Scottsdale to Sunland. Prospectively, Staff recommends that the Company be Ordered to keep a mileage log in compliance with NARUC conventions.

Insurance – General Liability – Adjustment F increases liability insurance expense by \$144, from \$1,714 to \$1,858, as shown on Schedule JLK-3, pages 1 and 2. This adjustment corrects the test year premium and adds the cost of an insurance audit fee.

Rate Case Expense – The Company did not request Regulatory Commission Expense. Adjustment G increases rate case expense by \$300, from \$0 to \$300, as shown on Schedule JLK-3, pages 1 and 3. This adjustment adds the amount of \$900 normalized over 3 years, which is the amount of rate case expense recognized in the last rate case.

Depreciation Expense – Adjustment H decreases depreciation expense by (\$15), from \$5,145 to \$5,130, as shown on Schedule JLK-3, pages 1 and 3. Various reassignments of plant and expenses totaling \$5,130 increased and decreased Depreciation Expense for a net adjustment of (\$15).

Property Tax Expense – Adjustment I increases property tax expense by \$689, from \$695 to \$1,384 as shown on Schedule JLK-3, page 3. Staff calculated property tax amount using a modified version of the Arizona Department of Revenue's ("ADOR") property tax method. One parcel owned by the Company remains classified by the Pinal County Assessor as vacant land.

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<sup>1</sup> "Workspace Utilization and Allocation Benchmark," United States General Services Administration, 2012, P 26.

<sup>2</sup> Internal Revenue Service, <http://www.irs.gov/2014-Standard-Mileage-Rates-for-Business>.

Income Tax Expense – Adjustment J increases income tax expense by \$739 from \$0 to \$739, as shown on Schedule JLK-3, pages 1 and 3. Staff's adjustments to the test year result in operating income of \$4,735.

## **CASH FLOW**

The Company proposed revenue and charges would provide an operating income of \$9,897 and would yield cash flow of \$15,042 before debt service and \$4,040 after debt service as shown on Schedules JLK-1 and JLK-6.

Staff's recommended revenue and charges would provide an operating income of \$16,046 and would yield a cash flow of \$21,176 before debt service and \$10,175 after debt service. Staff calculates cash flow as operating income, plus depreciation expense, less debt service. See Schedules JLK-1 and JLK-6.

## **REVENUE REQUIREMENT**

Sunland has a Staff-adjusted rate base of \$196,966. Staff's revenue requirement yields a return on rate base of 8.15 percent.

Staff recommends a \$13,236 or a 40.40 percent increase over the Staff adjusted test year revenue of \$32,761 to \$45,997. Staff's recommended revenues would result in an operating income of \$16,046, cash flow of \$10,175 and a DSCR of 1.9 as shown on Schedules JLK-1, JLK-6 and JLK-7.

Staff's total revenue requirement of \$45,997 provides the Company with sufficient cash flow to meet normal operating expenses and fund other contingencies.

## **DEBT SERVICE COVERAGE RATO ("DSCR")**

Staff's recommended revenue yields a DSCR of 1.9 as per Staff's Schedule JLK-7.

## **RATE DESIGN**

Schedule JLK-4 presents a complete list of the Company's present and proposed rates and Staff's recommended rates and charges.

The Company requested an increase in the total operating revenue of \$13,236. This increase would result in total revenue of \$45,997.

The Company's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,626 gallons from \$27.87 to \$39.60, for an increase of \$11.73, or 42.1 percent, as shown on Schedule JLK-5.

Staff's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,626 gallons from \$27.87 to \$36.25, for an increase of \$8.38, or 30.1 percent, as shown on Schedule JLK-5.

### **SERVICE LINE AND METER INSTALLATION CHARGES**

The Company did not requested changes to its service line and meter installation charges as shown on page 11 of the Engineering Report.

Staff has recommended service line and meter installation charges based upon its analysis of costs as discussed in the Engineering Report. Staff recommends approval of Staff's service line and meter installation charges as shown on Schedule JLK-4.

### **STAFF RECOMMENDATIONS**

Staff recommends:

1. Approval of its recommended rates and charges as shown in Schedule JLK-4.
2. The WIFA Surcharge ordered by Decision No. 73827 be discontinued as of the effective date of the Decision in this Docket.
3. The Company be directed to log and document all Transportation Expense in the preparation of its next rate case.
4. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
5. The Company be ordered to use the depreciation rates presented in Table B of the attached Engineering Report.



# **SUMMARY OF OPERATING INCOME** **ADJUSTED TEST YEAR AND STAFF RECOMMENDED**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$ 27,347	\$ 27,347	\$ 38,444	\$ 45,329
Unmetered Water Revenue	-	-	-	-
Other Water Revenues	5,414	5,414	7,553	668
Total Operating Revenue	<u>\$ 32,761</u>	<u>\$ 32,761</u>	<u>\$ 45,997</u>	<u>\$ 45,997</u>
Operating Expenses:				
Operation and Maintenance	\$ 29,385	\$ 20,773	\$ 29,385	\$ 20,773
Depreciation	5,145	5,130	5,145	5,130
Property & Other Taxes	695	1,384	1,570	1,570
Income Tax	-	739	-	2,478
Total Operating Expense	<u>\$ 35,225</u>	<u>\$ 28,026</u>	<u>\$ 36,100</u>	<u>\$ 29,951</u>
Operating Income/(Loss)	<u>\$ (2,464)</u>	<u>\$ 4,735</u>	<u>\$ 9,897</u>	<u>\$ 16,046</u>
Rate Base O.C.L.D.	\$ 198,675	\$ 196,966	\$ 198,675	\$ 196,966
Rate of Return - O.C.L.D.	N/M	2.40%	4.98%	8.15%
Cash Flow		\$ (212)	\$ 4,040	\$ 10,175
DSCR			1.4	1.9

# ORIGINAL COST RATE BASE/FAIR VALUE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$ 244,136	\$ 6,327 A	\$	250,463
Less:				
Accum. Depreciation	47,368	7,010 B		54,378
<b>Net Plant</b>	<b>\$ 196,768</b>	<b>\$ (683)</b>	<b>\$</b>	<b>196,085</b>
Less:				
Plant Advances	-	-		-
Accumulated Deferred Income Taxes	1,495	-		1,495
<b>Total Advances</b>	<b>1,495</b>	<b>-</b>		<b>1,495</b>
Contributions Gross	-	-		-
Less:				
Amortization of CIAC	-	-		-
<b>Net CIAC</b>	<b>-</b>	<b>-</b>		<b>-</b>
<b>Total Deductions</b>	<b>\$ 1,495</b>	<b>\$ -</b>	<b>\$</b>	<b>1,495</b>
Plus:				
1/24 Power	136	0		136
1/8 Operation & Maint.	3,266	(1,026) C		2,240
Inventory	-	-		-
Prepayments	-	-		-
<b>Total Additions</b>	<b>\$ 3,402</b>	<b>\$ (1,026)</b>	<b>\$</b>	<b>2,376</b>
<b>Rate Base</b>	<b>\$ 198,675</b>	<b>\$ (1,709)</b>	<b>\$</b>	<b>196,966</b>

*Explanation of Adjustment:*

- A Refer to JLK-2, Page 2
- B Refer to JLK-2, Page 3
- C To reflect Staff's calculation of cash working capital based on Staff's recommended operation expenses.

# PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization Costs	\$ -	\$ -	\$ -
302 Franchise Costs	3,000	-	3,000
303 Land & Land Rights	21,800	-	21,800
304 Structures & Improvements	-	-	-
307 Wells & Springs	73,313	1,300 a.	74,613
311 Electric Pumping Equipment	10,723	-	10,723
320 Water Treatment Equipment	-	-	-
320.1 Water Treatment Plants	-	-	-
320.2 Solutions & Feeders	-	-	-
330 Distribution Reservoirs & Standpipes	-	-	-
330.1 Storage Tank	11,290	-	11,290
330.2 Pressure Tanks	1,000	-	1,000
331 Transmission & Distribution Mains	113,263	6,503 b.	119,766
333 Services	2,394	-	2,394
334 Meters & Meter Installations	6,280	(1,476) c.	4,804
335 Hydrants	-	-	-
336 Backflow Prevention Devices	-	-	-
339 Other Plant & Misc. Equip.	-	-	-
340 Office Furniture & Fixtures	1,073	-	1,073
340.1 Computer & Software	-	-	-
341 Transportation Equipment	-	-	-
342 Store Equipment	-	-	-
343 Tools & Work Equipment	-	-	-
344 Laboratory Equipment	-	-	-
345 Power Operated Equipment	-	-	-
345 Communications Equipment	-	-	-
347 Miscellaneous Equipment	-	-	-
348 Other Intangibles	-	-	-
105 C.W.I.P.	-	-	-
<b>TOTALS</b>	<b>\$ 244,136</b>	<b>\$ 6,327</b>	<b>\$ 250,463</b>

*Explanation of Adjustment:*

- a. To reassign well meter to Wells.
- b. To reassign repairs to distribution mains to Mains
- c. To remove repair & transfer meter to Wells.

## ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 47,368
Accumulated Depreciation - Per Staff	<u>54,378</u> A
<b>Total Adjustment</b>	<b><u>\$ 7,010</u></b>

### *Explanation of Adjustment:*

A - The Company failed to carry forward accumulated depreciation	\$ 7,198
Adj. for depreciating fully-depreciated plant	(1,000)
Depreciate repairs assigned to mains	336
Unaccounted for variances	<u>476</u>
	<u>\$ 7,010</u>

## STATEMENT OF TEST YEAR OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
461 Metered Water Revenue	\$ 27,347	\$ -	\$ 27,347
460 Unmetered Water Revenue	-	-	-
474 Other Water Revenues	5,414	-	5,414
<b>Total Operating Revenue</b>	<b>\$ 32,761</b>	<b>\$ -</b>	<b>\$ 32,761</b>
<b>Operating Expenses:</b>			
601 Salaries and Wages	\$ -	\$ -	\$ -
610 Purchased Water	-	-	-
615 Purchased Power	3,258	(403) A.	2,855
618 Chemicals	550	-	550
620 Repairs and Maintenance	6,873	(6,648) B.	225
621 Office Supplies & Expense	2,216	-	2,216
630 Outside Services	2,465	1,540 C.	4,005
635 Water Testing	3,241	(1,461) D.	1,780
641 Rents	7,200	(2,084) E.	5,116
650 Transportation Expenses	1,640	-	1,640
657 Insurance - General Liability	1,714	144 F.	1,858
659 Insurance - Health and Life	-	-	-
666 Regulatory Commission Expense - Rate Case	-	300 G.	300
675 Miscellaneous Expense	228	-	228
403 Depreciation Expense	5,145	(15) H.	5,130
408 Taxes Other Than Income	-	-	-
408.11 Property Taxes	695	689 I.	1,384
409 Income Tax	-	739 J.	739
<b>Total Operating Expenses</b>	<b>\$ 35,225</b>	<b>\$ (7,199)</b>	<b>\$ 28,026</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>\$ (2,464)</b>	<b>\$ 7,199</b>	<b>\$ 4,735</b>
<b>Other Income/(Expense):</b>			
419 Interest and Dividend Income	\$ -	\$ -	\$ -
421 Non-Utility Income	-	-	-
427 Interest Expense and Loan Fees	4,947	-	4,947
Debt Service Reserve Fund Deposit	-	-	-
426 Miscellaneous Non-Utility Expense	-	-	-
<b>Total Other Income/(Expense)</b>	<b>(4,947)</b>	<b>-</b>	<b>(4,947)</b>
<b>NET INCOME/(LOSS)</b>	<b>\$ (7,411)</b>	<b>\$ -</b>	<b>\$ (212)</b>

## STAFF ADJUSTMENTS

A.	PURCHASED POWER - Per Company Per Staff	\$ 3,258	
		<u>2,855</u>	<u>\$ (403)</u>
	To remove December, 2013 purchased power costs as they are outside of the test year.		
B.	REPAIRS AND MAINTENANCE - Per Company Per Staff	\$ 6,873	
		<u>225</u>	<u>\$ (6,648)</u>
	To assign repairs of mains to plant.		
C.	OUTSIDE SERVICES - Per Company Per Staff	\$ 2,465	
		<u>4,005</u>	<u>\$ 1,540</u>
	To transfer water testing sampling labor.	\$955	
	To increase sampling labor per Eng. Rpt.	345	
	To increase operator fee per Eng. Rpt.	240	
D.	WATER TESTING - Per Company Per Staff	\$ 3,241	
		<u>1,780</u>	<u>\$ (1,461)</u>
	To remove water testing sampling labor.	(\$955)	
	To adjust per Staff Engineering Report.	(506)	
E.	RENTS - Per Company Per Staff	\$ 7,200	
		<u>5,116</u>	<u>\$ (2,084)</u>
	To adjust to recommended rent amount.		
F.	INSURANCE - GENERAL LIABILITY - Per Company Per Staff	\$ 1,714	
		<u>1,858</u>	<u>\$ 144</u>
	To correct test year premium and add insurance audit fee. or rearrange adjustments as they appear on this schedule.		
G.	REGULATORY COMMISSION EXPENSE - RATE CASE - Per Company Per Staff	\$ -	
		<u>300</u>	<u>\$ 300</u>
	To add expenses of regulatory filing. \$900 normalized over 3 years.		

**STAFF ADJUSTMENTS (Cont.)**

H.	DEPRECIATION - Per Company	\$	5,145	
	Per Staff		<u>5,130</u>	<u>\$ (15)</u>

Various adjustments for plant additions

Pro Forma Annual Depreciation Expense:

Plant in Service	\$	250,463
Less: Non Depreciable Plant		24,800
Fully Depreciated Plant		<u>43,000</u>
Depreciable Plant	\$	182,663
Times: Staff Proposed Depreciation Rate		<u>2.81%</u>
Credit to Accumulated Depreciation		5,130
Less: Amort. of CIAC* @ 0.00%		<u>-</u>
Pro Forma Annual Depreciation Expense	\$	5,130

I.	PROPERTY TAXES - Per Company	\$	695	
	Per Staff		<u>1,384</u>	<u>\$ 689</u>

Staff has applied the 2015 property tax rate and used the ADOR method of calculation.

J.	INCOME TAX - Per Company	\$	-	
	Per Staff		<u>739</u>	<u>\$ 739</u>

Staff adds income tax expense on test year adjusted income.

**OPERATING INCOME ADJUSTMENT No. 3 - DEPRECIATION EXPENSE**

LINE NO.	ACCT NO.	DESCRIPTION	UTILITY PLANT IN SERVICE BALANCES	FULLY/NON-DEPRECIABLE PLANT BALANCES	DEPRECIABLE PLANT IN SERVICE	DEPREC. RATE	DEPRECIATION EXPENSE
		<b>Plant In Service</b>					
1	301	Organization Costs	\$ -	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Costs	3,000	3,000	-	0.00%	-
3	303	Land & Land Rights	21,800	21,800	-	0.00%	-
4	304	Structures & Improvements	-	-	-	3.33%	-
5	307	Wells & Springs	74,613	17,000	57,613	3.33%	1875
6	311	Electric Pumping Equipment	10,723	5,000	5,723	12.50%	670
7	320	Water Treatment Equipment	-	-	-	-	-
8	320.1	Water Treatment Plants	-	-	-	3.33%	-
9	320.2	Solutions & Feeders	-	-	-	20.00%	-
10	320.3	Arsenic Remediation Plant	-	-	-	-	-
11	330	Distribution Reservoirs & Standpipes	-	-	-	2.22%	-
12	330.1	Storage Tank	11,290	-	11,290	2.22%	251
13	330.2	Pressure Tanks	1,000	1,000	-	5.00%	-
14	331	Transmission & Distribution Mains	119,766	20,000	99,766	2.00%	1783
15	333	Services	2,394	-	2,394	3.33%	80
16	334	Meters & Meter Installations	4,804	-	4,804	8.33%	400
17	335	Hydrants	-	-	-	2.00%	-
18	336	Backflow Prevention Devices	-	-	-	6.67%	-
19	339	Other Plant & Misc. Equip.	-	-	-	6.67%	-
20	340	Office Furniture & Fixtures	1,073	-	1,073	6.67%	72
21	340.1	Computer & Software	-	-	-	20.00%	-
22	341	Transportation Equipment	-	-	-	20.00%	-
23	342	Store Equipment	-	-	-	4.00%	-
24	343	Tools & Work Equipment	-	-	-	5.00%	-
25	344	Laboratory Equipment	-	-	-	10.00%	-
26	345	Power Operated Equipment	-	-	-	5.00%	-
27	345	Communications Equipment	-	-	-	10.00%	-
28	347	Miscellaneous Equipment	-	-	-	10.00%	-
29	348	Other Intangibles	-	-	-	0.00%	-
29		Subtotal General	\$ 250,463	\$ 67,800	\$ 182,663		\$ 5,130
30		Non-depreciable plant		24,800			
31		Fully-depreciable plant		43,000			
		Less: Amortization of Contributions			\$ -		\$ -
32		Staff Recommended Depreciation Expense		\$ 43,000			\$ 5,130
33		Company Proposed Depreciation Expense					5,145
34		Increase/(Decrease) to Depreciation Expense					\$ (15)



**OPERATING INCOME ADJUSTMENT No. 3 - PROPERTY TAXES**

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 32,761	\$ 32,761
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 65,522	\$ 65,522
4	Staff Recommended Revenue	\$32,761	\$45,997
5	Subtotal (Line 4 + Line 5)	\$ 98,283	\$ 111,519
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 32,761	\$ 37,173
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 65,522	\$ 74,346
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 65,522	\$ 74,346
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	\$ 12,122	\$ 13,754
15	Composite Property Tax Rate - Obtained from ADOR	11.4152%	11.4152%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 1,384	
17	Company Proposed Property Tax	695	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 689	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 1,570
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		1,384
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 186
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 186
23	Increase in Revenue Requirement		\$ 13,236
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.4079%

**REFERENCES:**

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1 Page 2  
Line 21: Line 19 - Line 20

### RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" x 3/4" Meter	\$ 14.00	\$ 18.00	\$ 20.18
3/4" Meter	\$ 21.00	\$ 27.00	\$ 75.00
1" Meter	\$ 35.00	\$ 45.00	\$ 75.00
1½" Meter	\$ 70.00	\$ 90.00	\$ 150.00
2" Meter	\$ 112.00	\$ 144.00	\$ 240.00
3" Meter	\$ 224.00	\$ 288.00	\$ 480.00
4" Meter	\$ 350.00	\$ 450.00	\$ 750.00
6" Meter	\$ 700.00	\$ 900.00	\$ 1,500.00
8" Meter	\$ -		\$ -
10" Meter	\$ -	\$ -	\$ -
Fire			
2"	N/A	N/A	N/A
4"	N/A	N/A	N/A
6"	N/A	N/A	N/A
8"	N/A	N/A	N/A
10"	N/A	N/A	N/A
12"	N/A	N/A	N/A
14"	N/A	N/A	N/A
20"	N/A	N/A	N/A
Private Hydrant	N/A	N/A	N/A
Public Hydrant	N/A	N/A	N/A
Public Sprinkler	N/A	N/A	N/A
Commodity Rates			
5/8 x 3/4" & 3/4" Meter - Residential			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
First 3,000 Gallons	\$ 2.00		
From 3,001 to 9,000 Gallons	\$ 4.25		
Over 9,000 Gallons	\$ 5.75		
First 3,000 Gallons		\$ 3.50	
From 3,001 to 9,000 Gallons		\$ 5.75	
Over 9,000 Gallons		\$ 8.50	
First 3,000 Gallons			\$ 4.08
From 3,001 to 9,000 Gallons			\$ 6.12
Over 9,000 Gallons			\$ 10.36
3/4" Meter - Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
First 3,000 Gallons	N/A		
From 3,001 to 9,000 Gallons	N/A		
Over 9,000 Gallons	N/A		
First 3,000 Gallons		N/A	
From 3,001 to 9,000 Gallons		N/A	
Over 9,000 Gallons		N/A	
First 3,000 Gallons			\$ 4.08
From 3,001 to 9,000 Gallons			\$ 6.12
Over 9,000 Gallons			\$ 10.36
1" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 35,000 Gallons	N/A		
Over 35,000 Gallons	N/A		
From 1 to 35,000 Gallons		N/A	
Over 35,000 Gallons		N/A	
From 1 to 35,000 Gallons			\$ 6.12
Over 35,000 Gallons			\$ 10.36
1½" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
First 0 Gallons	N/A		
Over 0 Gallons	N/A		
First 0 Gallons		N/A	
Over 0 Gallons		N/A	
First 0 to 120,000 Gallons			\$ 6.12
Over 120,000 Gallons			\$ 10.36

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
2" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 0 to 225,000	N/A	N/A	\$ 6.12
Over 225,000	N/A	N/A	\$ 10.36
3" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 0 to 500,000	N/A	N/A	\$ 6.12
Over 500,000	N/A	N/A	\$ 10.36
4" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 0 to 800,000	N/A	N/A	\$ 6.12
Over 800,000	N/A	N/A	\$ 10.36
6" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 0 to 1,500,000	N/A	N/A	\$ 6.12
Over 1,500,000	N/A	N/A	\$ 10.36
OPA/Fire - All Meters			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
All Gallons	N/A	N/A	N/A
Private Fire - All Meters			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
All Gallons	N/A	N/A	N/A
Standpipe or Bulk			
All Gallons	N/A		
Minimum		\$ 35.00	
Per gallon		\$ 0.05	
All gallons - per 1,000 gallons			\$ 10.36

**RATE DESIGN**

Service Line and Meter Installation Charges	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" x 3/4" Meter	\$ 350.00	\$ 350.00	\$ 350.00
3/4" Meter	\$ 350.00	\$ 350.00	\$ 350.00
1" Meter	\$ 400.00	\$ 400.00	\$ 400.00
1½" Meter	\$ 500.00	\$ 500.00	\$ 500.00
2" Turbine Meter	\$ 750.00	\$ 750.00	\$ 750.00
2" Compound Meter	At Cost	At Cost	At Cost
3" Turbine Meter	At Cost	At Cost	At Cost
3" Compound Meter	At Cost	At Cost	At Cost
4" Turbine Meter	At Cost	At Cost	At Cost
4" Compound Meter	At Cost	At Cost	At Cost
6" Turbine Meter	At Cost	At Cost	At Cost
6" Compound Meter	At Cost	At Cost	At Cost
<b>Service Charges</b>			
Establishment	\$ 30.00	\$ 30.00	\$ 35.00
Reconnection (Delinquent)	\$ 30.00	\$ 30.00	\$ 30.00
Meter Test (If Correct)	\$ 25.00	\$ 25.00	\$ 25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	\$ 20.00	\$ 35.00	\$ 25.00
Deferred Payment	1.5%	1.5%	1.5%
Meter Re-Read (If Correct)	\$ 15.00	\$ 20.00	\$ 20.00
Late Fee	1.50	25.00	\$ 10.00
After Hours Service Charge	25.00	25.00	\$ 25.00
<b>Monthly Service Charge for Fire Sprinkler</b>			
4" or Smaller	-	-	\$ -
6"	-	-	***
8"	-	-	***
10"	-	-	***
Larger than 10"	-	-	***
<p>* Per Commission Rules (R14-2-403.B)</p> <p>** Months off system times the minimum (R14-2-403.D)</p> <p>*** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.</p>			

**TYPICAL BILL ANALYSIS**  
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 77

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	4,750	\$ 32.65	\$ 46.06	\$ 13.41	41.1%
Median Usage	3,626	\$ 27.87	\$ 39.60	\$ 11.73	42.1%

<u>Staff Recommend</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	4,750	\$ 32.65	\$ 43.13	\$ 10.48	32.1%
Median Usage	3,626	\$ 27.87	\$ 36.25	\$ 8.38	30.1%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4 - Inch Meter

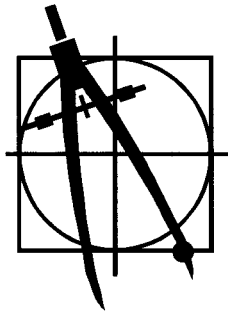
<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$ 14.00	\$ 18.00	28.6%	\$ 20.18	44.1%
1,000	16.00	21.50	34.4%	24.26	51.6%
2,000	18.00	25.00	38.9%	28.34	57.4%
3,000	20.00	28.50	42.5%	32.42	62.1%
4,000	24.25	34.25	41.2%	38.54	58.9%
5,000	28.50	40.00	40.4%	44.66	56.7%
6,000	32.75	45.75	39.7%	50.78	55.1%
7,000	37.00	51.50	39.2%	56.90	53.8%
8,000	41.25	57.25	38.8%	63.02	52.8%
9,000	45.50	63.00	38.5%	69.14	52.0%
10,000	51.25	71.50	39.5%	79.50	55.1%
15,000	80.00	114.00	42.5%	131.30	64.1%
20,000	108.75	156.50	43.9%	183.10	68.4%
25,000	137.50	199.00	44.7%	234.90	70.8%
50,000	281.25	411.50	46.3%	493.90	75.6%
75,000	425.00	624.00	46.8%	752.90	77.2%
100,000	568.75	836.50	47.1%	1,011.90	77.9%
125,000	712.50	1,049.00	47.2%	1,270.90	78.4%
150,000	856.25	1,261.50	47.3%	1,529.90	78.7%
175,000	1,000.00	1,474.00	47.4%	1,788.90	78.9%
200,000	1,143.75	1,686.50	47.5%	2,047.90	79.1%

## CASH FLOW ANALYSIS

	Staff Adjusted	Company Proposed	Staff Recommended
<b>Cash Inflows:</b>			
1 461 Metered Water Revenue	\$ 27,347	\$ 38,444	\$ 45,329
2 460 Unmetered Water Revenue	-		-
3 474 Other Water Revenues	5,414	7,553	668
4 Total Operating Revenue	\$ 32,761	\$ 45,997	\$ 45,997
<b>Cash Outflows:</b>			
5 601 Salaries and Wages	\$ -		\$ -
6 610 Purchased Water	-		-
7 615 Purchased Power	2,855	3,258	2,855
8 618 Chemicals	550	550	550
9 620 Repairs and Maintenance	225	6,873	225
10 621 Office Supplies & Expense	2,216	2,216	2,216
11 630 Outside Services	4,005	2,465	4,005
12 635 Water Testing	1,780	3,241	1,780
13 641 Rents	5,116	7,200	5,116
14 650 Transportation Expenses	1,640	1,640	1,640
15 657 Insurance - General Liability	1,858	1,714	1,858
16 659 Insurance - Health and Life	-	-	-
17 666 Regulatory Commission Expense - Rate Case	300	-	300
18 675 Miscellaneous Expense	228	228	228
19 403 Depreciation Expense	5,130	5,145	5,130
20 408 Taxes Other Than Income	-	-	
21 408.11 Property Taxes	1,384	1,570	1,570
22 409 Income Tax	739	-	2,478
23 Total Operating Expenses	\$ 28,026	\$ 36,100	\$ 29,951
24 Operating Income	\$ 4,735	\$ 9,897	\$ 16,047
25 Plus: Depreciation Expense	\$ 5,130	\$ 5,145	\$ 5,130
26 Less Loan Interest and Fee Payment	4,947	4,947	4,947
27 Less: Loan Debt Service Reserve Payment	1,836	1,836	1,836
28 Less: Loan Principal Payment	4,219	4,219	4,219
29 Cash Flow from Operations	\$ (212)	\$ 4,040	\$ 10,175

### DEBT SERVICE COVERAGE RATIO

	Company's Proposed Revenue	Staff's Recommended Revenue
<b>Operating Revenue:</b>	\$ 45,997	45,997
Operating Expenses:		
Operation and Maintenance	\$ 29,385	20,773
Depreciation	5,145	5,130
Property Taxes	1,570	1,629
Income Taxes	-	2,937
Total Operating Expense	\$ 36,100	30,469
<b>Operating Income</b>	\$ 9,897	15,528
Plus depreciation	5,145	5,130
<b>Operating Income Plus Depreciation</b>	\$ 15,042	\$ 20,657.9
Total Debt Service:		
Principal Repayment	4,219	4,219
Debt Service Reserve	1,836	1,836
Interest	1,435	1,435
Admin. Fees	3,512	3,512
<b>Total Debt Service</b>	11,002	11,002
<b>Debt Service Coverage Ratio (DSCR)</b> (Adjusted Operating Income/Total Debt Service)	1.4	1.9



**ENGINEERING REPORT FOR  
Great Prairie Oasis LLC dba  
Sunland Water Company**

**Docket No.  
W-04015A-15-0083 (Rates)**

**By Frank M. Smaila**

**May 1, 2015**

**CONCLUSIONS**

1. Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Utilities Staff" or "Staff") concludes that the Great Prairie Oasis LLC dba Sunland Water Company ("Sunland" or "Company") water system is comprised of two wells, two storage tanks, two booster pumps, one pressure tank, and transmission and distribution waterlines. All water system components are used and useful.
2. Staff concludes that the Company's in-service plants (i.e., wells, tanks and visible pipe) appeared to be in proper working order.
3. Staff concludes that the Company's yards at the North and South Well Sites are well maintained and free of old plant no longer in use.
4. Staff concludes that the Company currently has adequate production and storage capacity to serve the present customer base and reasonable growth. The data indicates that there was a 6.1 percent water loss in the system which is below Staff's recommended allowable water loss limit of 10 percent.
5. Staff concludes that the Company received an Arizona Department of Environmental Quality ("ADEQ") Approval of Construction for the installation of the South well or Well No. 2, 2,800 feet of 6-inch transmission line and implementation of a blending plan to mitigate arsenic and nitrate in drinking water.
6. Staff concludes that the Company's service area is located within the Arizona Department of Water Resources ("ADWR") Pinal Active Management Area. ADWR has determined that the Company is currently compliant with departmental requirements governing water providers and/or community water systems.
7. A check of the Utilities Division Compliance Section database indicates that there are currently no delinquent compliance items for the Company.
8. Staff concludes that the Company is in compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by 40 CFR 141



(National Primary Drinking Water Standards) and Arizona Administrative Code, Title 18, Chapter 4.

9. According to the ADEQ, the implementation of the blending plan has currently reduced the arsenic and nitrate levels in drinking water to below the MCL for both contaminants.
10. The Company has an approved Curtailment Tariff on file with the Commission. This tariff became effective February 29, 2012.
11. The Company has an approved Backflow Prevention Tariff on file with the Commission. This tariff became effective February 29, 2012.
12. The Company has approved Best Management Practice Tariffs on file with the Commission. These tariffs became effective October 4, 2012.
13. Staff concludes that the Company's identification information is posted at each wellsite.

#### **RECOMMENDATIONS**

1. Staff recommends an annual water testing expense of \$1,780 and an annual certified operator fee of \$1,440 and contractor fee of \$1,300 for weekly blending plan sampling be used for purposes of this application.
2. Staff recommends that the Company use the depreciation rates in Table B.
3. Staff recommends that the meter and installation charges listed under "Staff's Recommended and Current Commission Approved Charges" in Table C continue to be utilized.

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## **A. INTRODUCTION AND LOCATION OF COMPANY**

On March 6, 2015, Great Prairie Oasis LLC dba Sunland Water Company ("Sunland" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") to increase its rates (Docket No. W-04015A-15-0083). In Decision No. 73254, dated July 30, 2012, the Commission approved the Company's current rates and authorized the Company to incur long-term financing with the Water Infrastructure Finance Authority of Arizona ("WIFA") not to exceed \$122,050. In the same decision the Commission ordered that the Company file its next general rate case application no later than three years after the effective date of said decision. ACC Utilities Division Staff ("Utilities Staff" or "Staff") engineering review and analysis of this application is presented in this report.

Sunland is a Class E water utility company. During the test year which ended December 31, 2014 the Company had 78 metered connections.<sup>1</sup> The Company's water lines were installed to serve a subdivision originally named Sunland Estates now called Brookside Farms. The area served is located approximately five miles southeast of the City of Casa Grande near the Junction of Interstate 8 and Interstate 10 in Pinal County, Arizona. Figure 1 shows the location of the Company within Pinal County and Figure 2 shows the Company's Certificate of Convenience and Necessity ("CC&N") issued by the Commission covering approximately four and one-half square miles. The CC&N was originally granted to Selective Resources Corp. dba Greater Arizona Ranches in Commission Decision No. 40342, dated November 21, 1969. The CC&N was subsequently transferred to Greater Arizona Ranches dba Sunland Water Company in Commission Decision No. 56344, dated February 16, 1989. The CC&N was then transferred to Steego Corporation dba Greater Arizona Ranches in Commission Decision No. 61277, dated December 14, 1998. Finally, the CC&N was transferred to the current holder, Great Prairie Oasis, LLC dba Sunland, in Commission Decision No. 64174, dated October 30, 2001.

## **B. DESCRIPTION OF THE WATER SYSTEM**

Sunland was assigned Arizona Department of Environmental Quality ("ADEQ") Public Water System ("PWS") Permit No. 11-334. Sunland water system was visited on March 19, 2015, by Frank Smaila and Jorn Keller, of Utilities Staff, in the accompaniment of Ms. Beth Wand, William Miller and David Foster. Ms. Wand is Sunland's Director of Operations. Mr. Miller is the Company's maintenance contractor and Brookside Farms subdivision homeowner and Mr. Foster is Mr. Miller's helper. Mr. Gary L. Boileau, who did not attend the site visit, is the Company's Certified Operator.<sup>2</sup>

The Company's water system consists of two wells, referred to as North Well or Well No. 1 (Arizona Department of Water Resources ("ADWR") Registration No. 55-606215) and South Well or Well No. 2 (ADWR Registration No. 55-606220), two storage tanks, two booster pumps, one pressure tank, transmission waterline and distribution system.<sup>3</sup> The South Well, pump yield of 350

<sup>1</sup> Per Company plant data submitted with Application.

<sup>2</sup> Mr. Boileau is a Certified Grade 2 Water Distribution System Operator (expiration date January 31, 2017) and is a Certified Grade 2 Water Treatment Plant Operator (expiration date January 31, 2017), ADEQ ID No. OP007725.

<sup>3</sup> The Sunland water system relies solely on groundwater as its source of water.

gallons per minute ("gpm"), is connected to the 10,000 gallon No. 1 storage tank, located at the north well site, via approximately 2,800 feet of 6-inch transmission line.<sup>4</sup> The North Well, pump yield of 150 gpm, also feeds the No. 1 storage tank and is blended with the South Well to reduce the arsenic and nitrate levels to below the Maximum Contaminant Level ("MCL"). The No. 1 storage tank gravity feeds the 10,000 gallon No. 2 storage tank.<sup>5</sup> Water pressure in the water system is increased prior to being delivered to customers through a booster system consisting of two 7.5 horsepower ("hp") booster pumps and a 5,000 gallon pressure tank. The distribution system consists of approximately 10,560 feet of 6-inch main lines.<sup>6</sup> Water level in the storage tanks is automatically controlled. A water system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing.

The yards at the North and South Well Sites are well maintained and free of old plant no longer in use. The in-service plants (i.e., wells, tanks and visible pipe) appeared to be in proper working order. Staff did not observe any leaks at the well sites or in the distribution area.<sup>7</sup> During the site inspection, Staff noted that signs listing the Company's identification information were posted at each wellsite. The signs comply with ADEQ requirements.

#### A. Plant Facilities Summary<sup>8</sup>

##### Well Data

	North Well	South Well
ADWR Registration No. <sup>(Note 1)</sup>	55-606215	55-606220
Casing Diameter	20 inch	20 inch
Casing Depth	1120 feet	1120 feet
Pump Horsepower (hp)	20 hp	40 hp
Pump Yield	150 gpm	350 gpm
Meter Size	3 inch	3 inch
Year Drilled <sup>(Note 2)</sup>	1942	1947

Notes:

- 1) ADWR well registration records list Great Prairie Oasis LLC as the well owner.
- 2) ADWR well registration records list year wells were constructed.

<sup>4</sup> ADEQ Approval of Construction Permit, December 9, 2013.

<sup>5</sup> The water system has total storage capacity of 20,000 gallons.

<sup>6</sup> Per plant data submitted with the Application.

<sup>7</sup> Staff toured Brookside Farms subdivision on March 19, 2015 and did not observe any leaks in the distribution system.

<sup>8</sup> The information listed was based on one, or a combination of, the following sources: 1) Company's Application, 2) Commission Annual Reports, 3) ADWR Records, 4) Information contained in the Company's Response to Staff Data Request and, 5) Information collected during Staff's site visit.<sup>8</sup>

**Booster System, Treatment, Security & Water Storage**

Structure or Equipment	Location	Quantity – Capacity, Size
Pressure Tank	North Well Site	1 – 5,000 Gallon
Booster Pumps	North Well Site	2 – 7.5 hp
Security Fencing	Both Well Sites Enclosed	6 - Foot Chain Link
Storage Tanks	North Well Site	2 – 10,000 Gallon

Notes:

1) Treatment equipment – none, Chlorine liquid is added manually.

**Distribution and Transmission Waterlines**

Diameter	Waterline Type	Material	Approximate Length
6 inch	Transmission	PVC	2,800
6 inch	Distribution	PVC	10,560

**Meters**

Size	Quantity
5/8 x 3/4 inch	87

**Fire Hydrants**

Size/Description	Quantity
Standard	N/A

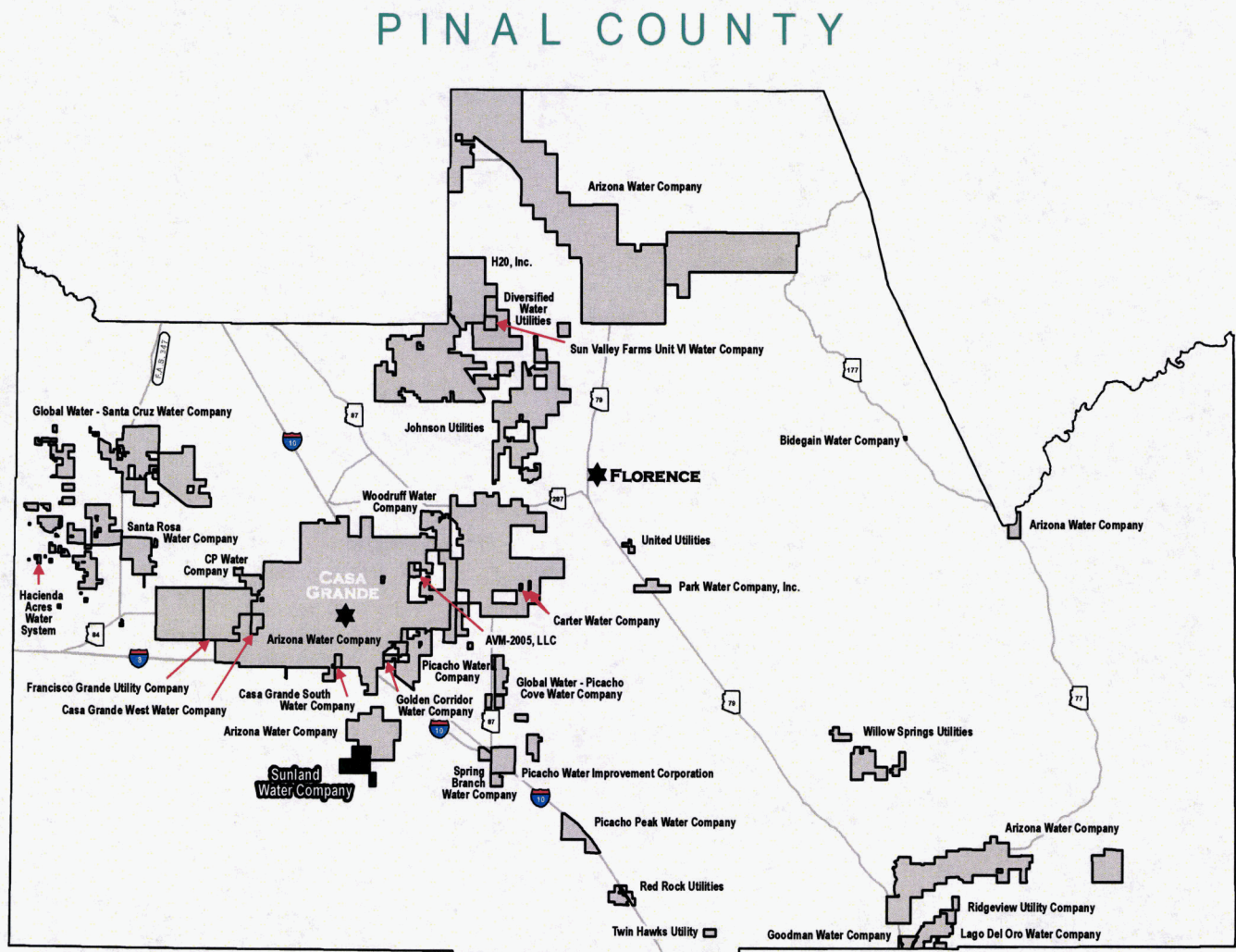


Figure 1. County Map







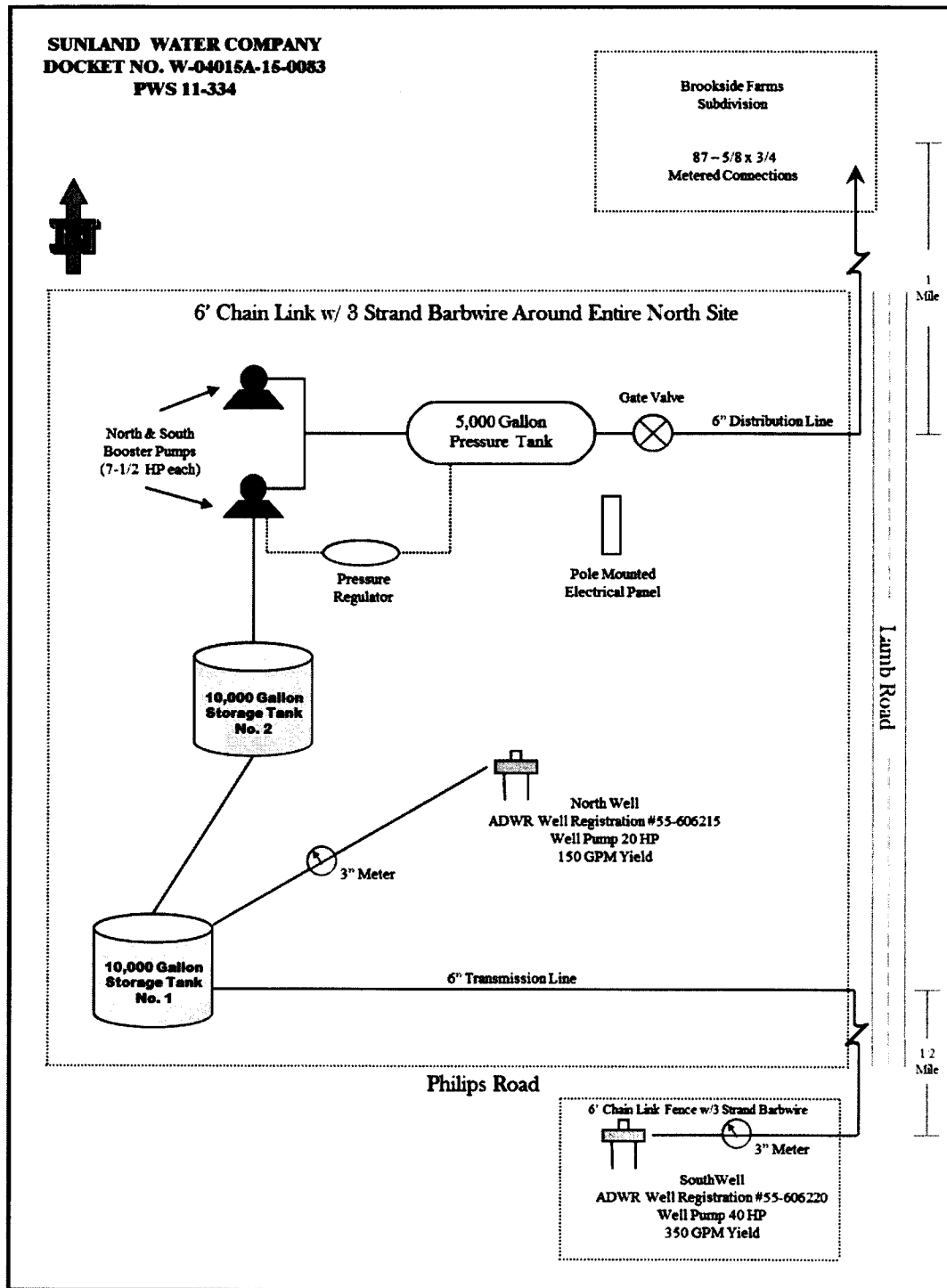


Figure 3. Water System Schematic



## C. WATER USE

### *Water Sold*

Figure 4 presents the water consumption data provided by the Company for the test year ending December 31, 2014. Customer consumption included a high monthly water use of 232 gallons per day ("gpd") per connection in May, and the low water use was 109 gpd per connection in December. The average annual use was 156 gpd per connection. The Company reported 4,383,170<sup>9</sup> gallons of water sold during the test year.

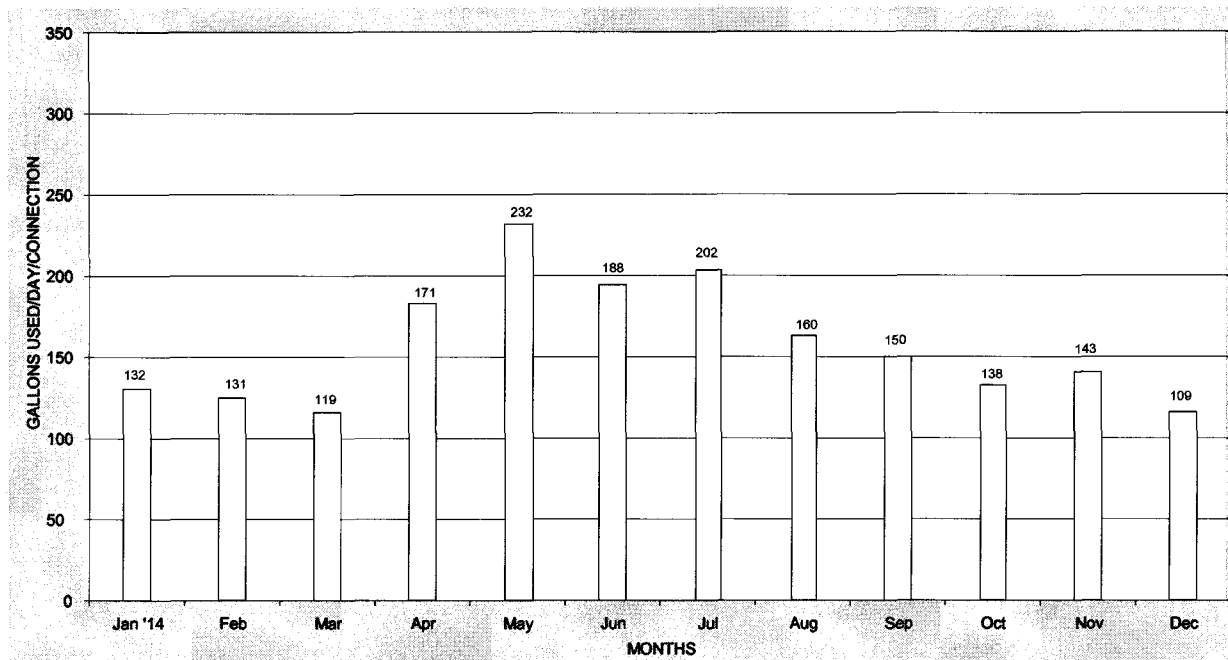


Figure 4. Water Use

### *Non-Account Water*

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. Lost water for the Company was calculated to be 6.1 percent in 2014, which is within acceptable limits.

### *System Analysis*

Currently there are two wells serving the water system and no water is purchased. The North and South wells production capacity is 150 gpm and 350 gpm respectively. The North well arsenic level exceeds the MCL while the South well nitrate level exceeds the MCL. On December 9, 2013, ADEQ granted the Company an Approval of Construction ("AOC") Permit for the blending

<sup>9</sup> Total water sold during the test year based on the monthly data.

of the two wells to mitigate the arsenic and nitrate exceedances.<sup>10</sup> According to the ADEQ approved design report, North and South wells will each contribute approximately 50% of the total required flow which will produce a blended arsenic level that is below 0.008 mg/L and nitrate level slightly above 8 mg/L. According to ADEQ's Safe Drinking Water Information System ("SDWIS") database, the blended results are consistently below the MCL for both arsenic and nitrate. The system currently has 20,000 gallons of storage capacity (two 10,000 gallon storage tanks). There are no fire hydrants in the distribution system. The water system was serving 77 customers during the peak month of May 2014 when the Company reported 554,590 gallons sold. Staff concludes that the Sunland water system currently has adequate production and storage capacity to serve the present customer base and reasonable growth.

#### **D. GROWTH**

In its application the Company provides water service to approximately 78 active residential customers all located within one subdivision, Brookside Farms. The Company does not anticipate an increase in its customer base in the Brookside Farms or new development in its CC&N within the near future.<sup>11</sup> Historical growth has been minimal in recent years. The Company reported serving only 46 customers in 2002, historic low, and 85 customers in 2011, historic high. Staff's historical growth figures are based on the data reported by the Company in its annual reports submitted to the Commission. Staff expects the Company's customer base to remain flat through at least the next 3 years.

#### **E. ADEQ COMPLIANCE**

##### *Compliance*

According to the ADEQ Compliance Status Report ("CSR"), dated April 7, 2015, the Company is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

##### *Water Testing Expense*

The Company is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP").<sup>12</sup> Due to the Company's inability to incorporate automatic or electronic devices within its blending operation to ensure that the blend remains in the desired range, ADEQ requires the Company perform ongoing weekly field testing of arsenic and nitrate on the blended water prior to distribution.<sup>13</sup> On a quarterly basis, the Company must monitor all sources contributing to the blend and blended water to ensure that the provisions of section Arizona Administrative Code

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<sup>10</sup> ADEQ AOC Permit No. 20110140

<sup>11</sup> See "Changes in current, compared to past operations, that necessitate the rate adjustment" discussion on page 3 of the Application.

<sup>12</sup> The MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

<sup>13</sup> Per AAC R18-4-217, Use of Blending to Achieve Compliance with MCL and ADEQ AOC Permit No. 20110140, December 9, 2013

("AAC") R18-4-217.A.2.a & b are met. The Company reported water testing expenses of \$3,241.29 during the test year which included \$955 for sampling labor. Staff has reviewed and recalculated these expenses. Table A presents Staff's adjusted annual water testing expense.

**Table A. Water Testing Cost**

Monitoring	Cost per test	Quantity of tests per 3 years	3 Year Costs	Annual Testing Cost
Coliform (Monthly)	\$25	36	\$900	\$300
MAP	MAP	MAP	MAP	\$442 (Note 1)
Lead & Copper (Triennially)	\$28	5	\$138	\$46 (Note 2)
DBPs (Annually)	\$275	3	\$825	\$275
Arsenic --(Field Strips Weekly) (Continuous)	\$5	156	\$705	\$235 (Note 3)
Nitrate --(Field Strips Weekly) (Continuous)	\$2	156	\$318	\$106 (Note 4)
Blended Water (Quarterly)	\$94	48	\$1,128	\$376 (Note 5)
Total Testing Cost	-	-	-	<b>\$1,780</b>

- Notes: 1) The ADEQ MAP invoice for Calendar Year 2014 was \$442.18.  
2) The Lead and Copper invoice for Calendar Year 2014 was \$137.50 for 5 Samples of each.  
3) Year one Arsenic Field Kit cost was \$215.55 for 50 tests and \$230.99 for 50 tests in years 2 and 3. Costs in Table A extrapolated for 52 weeks. Weekly Field Testing Cost is \$4.52, 3 Year Cost is \$705.27. Field test results are not a compliance item but are kept in Company files for at-least 5 years subject to verification by ADEQ inspector.  
4) Year one Nitrate Field Kit cost was \$102.06 for 50 tests. Costs in Table A extrapolated for 52 weeks. Weekly Field Testing Cost was \$2.04, 3 Year Cost is \$318.24 and Yearly Cost is \$106.08. Field test results are not a compliance item but are kept in the Company files for at-least 5 years and are subject to verification by ADEQ inspector.  
5) Blending Program Water Testing Cost – quarterly and continuous, per AAC R18-4-217.A.2.a & b. 16 analyses per year, 4 each for arsenic and nitrate of raw water source and 4 each for arsenic and nitrate of blended water to distribution.

The Company reported a monthly certified operator fee of \$100 plus an additional \$60 per quarter for conducting quarterly sampling (\$1,440 annualized). The Company also reported a weekly contractor fee of \$25 (\$1,300 annualized) for blending plan field sampling and analysis of arsenic and nitrate.<sup>14</sup> Staff recommends an annual certified operator fee of \$1,440 and \$1,300 contractor fee be used for purposes of this application.

<sup>14</sup> Per Application Checklist Item #10, Water Testing Invoices and phone discussions with Ms. Wand.

**F. ADWR COMPLIANCE**

The Company's service area is located within the Pinal Active Management Area ("AMA"). ADWR has determined that the Company's water system is currently compliant with departmental requirements governing water providers and/or community water systems.<sup>15</sup>

**G. ACC COMPLIANCE**

A check of the Utilities Division Compliance Section database indicates that there are currently no delinquent compliance items for Sunland.<sup>16</sup>

**H. DEPRECIATION RATES**

In its application the Company utilized Staff's recommended depreciation rates. Staff's typical and customary depreciation rates which vary by National Association of Regulatory Utility Commissioners ("NARUC") plant category are presented in Table B.

**Table B. Depreciation Rate Table for Water Companies**

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.00
320.3	Point-of-Use Treatment Devices	10	10.00
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67

<sup>15</sup> Per ADWR Water Provider Compliance Report dated May 1, 2015.

<sup>16</sup> Per ACC Compliance Section email dated March 16, 2015.

340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00

## I. OTHER ISSUES

### 1. *Service Line and Meter Installation Charges*

Service line and meter installation charges are refundable advances. In its filing the Company did not request changes to its current Commission approved service line and meter installation charges.<sup>17</sup> Staff recommends that the meter and installation charges listed under “Staff’s Recommended and Current Commission Approved Charges” in Table C continue to be utilized.

**Table C. Service Line and Meter Installation Charges**

	Staff’s Recommended and Current Commission Approved Charges		
Meter Size	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$260	\$90	\$350
3/4-inch	\$222	\$128	\$350
1-inch	\$244	\$156	\$400
1-1/2-inch	\$256	\$244	\$500
2-inch Turbine	\$332	\$418	\$750
2-inch Comp	-	-	-
3-inch Turbine	-	-	ICB *
3-inch Comp	-	-	-
4-inch Turbine	-	-	ICB *
4-inch Comp	-	-	-
6-inch Turbine	-	-	ICB *
6-inch Comp	-	-	-

\* Individual Cost Basis, At cost

### 2. *Curtailment Tariff*

Sunland has an approved Curtailment Tariff on file with the Commission. This tariff became effective February 29, 2012.

<sup>17</sup> The Company’s current charges were approved in Decision No. 73254, dated July 30, 2012.

3. *Backflow Prevention Tariff*

Sunland has an approved Backflow Prevention Tariff on file with the Commission. This tariff became effective February 29, 2012.

4. *Best Management Practices ("BMP") Tariff*

Sunland has an approved BMP Tariff on file with the Commission. This tariff became effective October 4, 2012.

5. *Posting of Signs at Facility Sites*

During the site inspection Staff noted that signs listing the Company's identification information were posted at each wellsite. The signs comply with ADEQ requirements.

6. *Bulk Water*

Recently the Company received inquiries about the possibility of bulk water sales. The Company does not currently have a bulk water load out station. In its application the Company proposed bulk water sale rates and no other information was provided. Staff's conversation with Ms. Wand indicated that if the Company were to construct a bulk water load out station it would be located at the North well site and possibly connected to the pressure tank. The design and construction of the bulk water load out station is subject to ADEQ approval if total cost is greater than \$12,500.<sup>18</sup>

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<sup>18</sup> Per AAC R18-5-505.B.